

CONSOLIDATED FINANCIAL STATEMENTS



SIMCOE ERIE INVESTORS LIMITED
1980

HEAD OFFICE 505 York Blvd., Hamilton, Ontario

REGISTRAR AND TRANSFER AGENT First City Trust Company

AUDITORS Coopers & Lybrand

BANKERS The Toronto-Dominion Bank
Citibank, N.A., New York
Bank of Bermuda
Chemical Bank, N.Y., New York
The Toronto Dominion Bank
Cornhill Branch, London England

SHARES LISTED Toronto Stock Exchange



Simcoe Erie Investors Limited

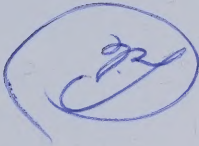
Simcoe & Erie General Insurance Company
The Bay City General Insurance Company
Simcoe Bay Reinsurance Company Limited
of Bermuda

MANAGED COMPANIES

Robert Bradford of Canada Limited
The Contingency Insurance Company Limited
New Rotterdam Insurance Company



Simcoe Erie Investors Limited
505 YORK BLVD., HAMILTON, ONTARIO



**INTERIM REPORT
TO SHAREHOLDERS**

FOR THE SIX MONTHS ENDED JUNE 30, 1980

AR21

REPORT TO SHAREHOLDERS:

During the first six months of 1980 we experienced a substantial growth in premium income over the previous year largely due to the activity of our U.S. Branch. We expect this growth to continue for the balance of the year since it is now apparent that our entry into the U.S. has been well-received by the American market. At the same time, after tax earnings were reduced by approximately 40%, the result of interest costs attached to financing our entry into the United States added to the effects of inadequate rate levels and high inflation that remain a factor in Canada. In view of the foregoing we feel our results reflect our Company's ability to maintain a strong profit position during the bottom of a cycle that is starting to show some signs of improving. The next few months should see upward rate adjustments in such critical areas as automobile insurance which will permit underwriting income to make its normal contribution to our overall earnings.

J.C. STRADWICK, JR.,
PRESIDENT

August 21, 1980

Simcoe Erie Investors Limited and Its Subsidiaries

CONSOLIDATED STATEMENT OF EARNINGS

For the Six Months Ended June 30, 1980
(Unaudited)

	1980	1979
	\$	\$
Gross Premiums Written	42,233,112	36,413,877
Net Premiums Earned	14,095,775	13,209,216
Earnings Before Interest and Income Taxes	2,040,423	2,467,247
Debt Interest	199,009	4,635
Provision for Income Taxes		
Current	771,600	758,500
Deferred	142,895	153,600
Net Earnings for the Period	926,919	1,550,512
Earnings Per Share		
Basic	25.7¢	43.6¢
Fully Diluted	22.5¢	42.1¢
Shares Issued and Outstanding — End of Period	3,605,118	3,560,778
Shares Issued and Outstanding — Weighted Average	3,605,118	3,557,558
Shares Outstanding — Fully Diluted Basis	4,550,345	3,678,345

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Six Months Ended June 30, 1980
(Unaudited)

	1980	1979
	\$	\$
Resources Provided:		
From Operations	2,242,541	2,765,239
Realization of Other Assets	216,562	155,618
Proceeds on Exercise of Share Warrants	—	5,000
	2,459,103	2,925,857
Resources Applied:		
Decrease in Accounts Payable over Accounts Receivable	897,343	413,225
Increase in Deferred Premium Acquisition Costs	245,328	250,280
Dividends	198,446	177,790
Purchase of Fixed Assets	482,494	13,563
Progress Bills re New Head Office Building	—	548,269
Repayment of Bank Loan	—	251,259
	1,823,611	1,654,386
Increase in Resources	635,492	1,271,471
Resources — Beginning of Period	42,810,519	41,666,723
Resources — End of Period	43,446,011	42,938,194
Represented By:		
Cash	2,445,578	4,127,998
Investments	41,000,433	38,810,196
	43,446,011	42,938,194

John Charles Stradwick	Chairman of the Board	
John Conway Stradwick	President	
Anthony Thomas Chmiel	Executive Vice-President	
Ernest Harry Swindall	Senior Vice-President	
Ernest Dodd	Vice-President and Secretary-Treasurer	
William Melville Fullerton	Assistant Secretary-Treasurer	OFFICERS

Anthony Thomas Chmiel, Eric Lee Clark, Kenneth Edward Jones,
Henry Vernon Kneale, John Gavin Sheppard, John Charles Stradwick
John Conway Stradwick, William Lloyd Stradwick, Ernest Harry Swindall,
John Warren Nevil Thomas, Arnold John Van Heukelom

DIRECTORS

John Thomas Hamilton, William G. Smith

HONORARY DIRECTORS

John Conway Stradwick	President and Chief Executive Officer	
Ernest H. Swindall	Executive Vice President	
John Thompson Atto	Vice President Underwriting	
William Thorndike Bircham	Vice President U.S. Operations	
Marshal Charter	Vice President Western Canada Operations	
Ernest Dodd	Vice President and Secretary-Treasurer	
William Melville Fullerton	Vice President Corporate Accounting	
Grant William Laycock	Vice President Surety	
Donald Ferguson MacKay	Vice President Engineering	
Edward Arthur McMurray	Vice President Claims	
Daniel Kenneth Tester	Vice President Corporate Properties	OPERATIONS OFFICERS

SIMCOE ERIE INVESTORS LIMITED
1980 CONSOLIDATED FINANCIAL STATEMENTS



PRESIDENT'S REPORT

TO THE SHAREHOLDERS

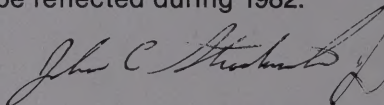
The accompanying statements reflect the continued instability of today's insurance market. Inflation coupled with the attitude of a segment of our industry that high interest rates on investments will take care of the underwriting losses combine to make it extremely difficult to secure adequate premium levels. At the same time rapidly increasing costs related to claims have made it prudent to put aside additional reserves to cushion the effect of the future inflationary trend and during the past year your Company considerably strengthened this important area.

We feel that we entered 1981 on a firm base having increased assets by approximately \$14 million during 1980 while passing \$100 million in premium income for the first time. Part of this growth was a result of our expanding activities in the United States. In our second year we more than doubled our 1979 volume and it is now evident that we are a recognized part of the American insurance industry. During 1981 we intend to continue expanding our penetration of this market using our well located New York City office as a base.

In Canada we remain convinced that there are a few more months of unrealistic premium rate competition in front of us before our industry takes the necessary steps to rectify the problem. In spite of this it is our intention to continue setting premium rates at adequate levels and establishing loss reserves that can stand the test of time. This programme might have a short term effect on profits as witnessed in 1980 but in the future, it only can inure to the benefit of our Company and its shareholders.

We also anticipate that the activities of our managed companies will increase during the year. Our activities on their behalf produced satisfactory profits for their accounts and we are pleased to be able to continue guiding their growth as underwriting partners of our insurance subsidiaries.

As evidenced by the foregoing, it is going to be difficult to make major gains in profits during the short term but we remain confident that the positive actions we have instituted will be reflected during 1982.



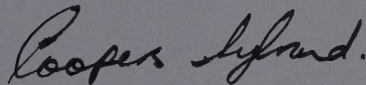
John C. Stradwick, Jr.,
President

AUDITOR'S REPORT

TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Simcoe Erie Investors Limited as at December 31, 1980 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

A handwritten signature in cursive script, reading "Cooper Lyford".

DATED AT HAMILTON, ONTARIO, MARCH 31, 1981

Chartered Accountants

CONSOLIDATED BALANCE SHEET **DECEMBER 31, 1980**

ASSETS	1980 \$	1979 \$
Cash	<u>4,464,655</u>	<u>2,461,515</u>
Accounts receivable		
Agents	12,113,090	8,329,783
Reinsurers	1,938,214	2,857,793
Other	<u>654,088</u>	<u>65,264</u>
	<u>14,705,392</u>	<u>11,252,840</u>
Accrued interest	<u>924,696</u>	<u>831,726</u>
Investments		
Short-term deposits	5,665,818	1,938,164
Bonds — at amortized cost (quoted market value 1980 - \$28,111,393; 1979 - \$28,495,384)	34,060,410	32,489,965
Stocks — at cost (quoted market value 1980 - \$7,673,443; 1979 - \$5,813,312)	<u>8,207,910</u>	<u>5,920,875</u>
	<u>47,934,138</u>	<u>40,349,004</u>
Investment in corporate joint venture - at equity value	196,277	162,111
Fixed assets - at cost less accumulated depreciation	2,146,654	1,606,686
Land - at cost	345,735	297,845
Other assets	232,765	312,743
Excess of cost of investment in shares of subsidiaries over net book value of assets acquired - less amortization	135,908	146,340
Deferred premium acquisition costs	1,990,933	1,684,754
Deferred debenture costs - at cost less amortization	<u>172,200</u>	<u>184,500</u>
	<u>5,220,472</u>	<u>4,394,979</u>
	<u><u>73,249,353</u></u>	<u><u>59,290,064</u></u>

LIABILITIES

	1980 \$	1979 \$
Unpaid claims and provision for adjustment expenses	25,393,291	22,638,580
Accounts payable		
Reinsurers	9,731,650	5,540,287
Agents	1,073,280	546,037
Other	1,458,140	1,675,451
Income and other taxes payable	546,437	260,993
Reinsurers' deposits	4,333,243	2,106,515
	<u>42,536,041</u>	<u>32,767,863</u>
Unearned premiums	10,757,365	8,107,010
Unearned commission	1,115,000	875,000
Bank loan	500,000	—
Note payable	75,123	73,450
6% Convertible debentures (Note 2)	44,700	75,600
10 1/2% Convertible debentures (Note 2)	3,500,000	3,500,000
Deferred income taxes	1,161,270	985,320
	<u>17,153,458</u>	<u>13,616,380</u>
Minority interest	<u>17,055</u>	<u>16,376</u>

SHAREHOLDERS' EQUITY**CAPITAL STOCK (Notes 2 and 3)**

Authorized

6,000,000 Common shares without par value

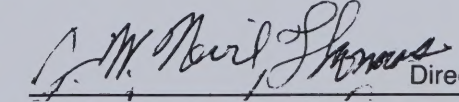
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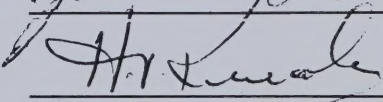
3,626,658 Shares

RETAINED EARNINGS

	3,614,443	3,583,543
	<u>9,928,356</u>	<u>9,305,902</u>
	<u>13,542,799</u>	<u>12,889,445</u>
	<u>73,249,353</u>	<u>59,290,064</u>

SIGNED ON BEHALF OF THE BOARD


Director


Director

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1980

	1980 \$	1979 \$
BALANCE — BEGINNING OF YEAR	9,305,902	7,280,332
Net earnings for the year	<u>1,037,944</u>	<u>2,381,399</u>
	10,343,846	9,661,731
Dividends	<u>415,490</u>	<u>355,829</u>
BALANCE — END OF YEAR	<u><u>9,928,356</u></u>	<u><u>9,305,902</u></u>

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1980

	1980 \$	1979 \$
GROSS PREMIUMS WRITTEN	<u>102,475,021</u>	<u>77,890,121</u>
REVENUE		
Premiums earned	31,508,205	27,088,376
Management fees	352,162	138,286
Investment income	<u>4,561,650</u>	<u>4,278,945</u>
	<u>36,422,017</u>	<u>31,505,607</u>
EXPENSES		
Claims incurred	25,651,241	20,525,650
Commissions	4,043,479	3,165,290
Premium taxes	331,257	281,439
Other underwriting	3,065,653	2,454,505
Administration and investment	587,664	1,001,904
Debenture interest	<u>396,400</u>	<u>7,403</u>
	<u>34,075,694</u>	<u>27,436,191</u>
	<u>2,346,323</u>	<u>4,069,416</u>
PROVISION FOR INCOME TAXES		
Current	1,165,916	1,357,352
Deferred	<u>175,950</u>	<u>322,720</u>
	<u>1,341,866</u>	<u>1,680,072</u>
EARNINGS BEFORE EQUITY IN NET EARNINGS OF CORPORATE JOINT VENTURE AND MINORITY INTEREST	1,004,457	2,389,344
EQUITY IN EARNINGS (LOSS) OF CORPORATE JOINT VENTURE	34,166	(5,756)
MINORITY INTEREST	<u>679</u>	<u>2,189</u>
NET EARNINGS FOR THE YEAR (Notes 4 and 5)	<u>1,037,944</u>	<u>2,381,399</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1980

RESOURCES PROVIDED

	1980 \$	1979 \$
Operations		
Net earnings for the year	1,037,944	2,381,399
Deferred income taxes	175,950	322,720
Depreciation and amortization	223,381	72,906
Amortization of the excess of cost of investment in shares of subsidiaries over net book value of assets acquired	10,432	10,432
Share of (earnings) loss of corporate joint venture	(34,166)	5,756
Unrealized exchange (gain) loss	1,673	(1,126)
Minority interest share in earnings	679	2,189
Increase in unearned premiums	2,650,355	1,354,973
Increase in unearned commissions	240,000	—
Gain on sale of fixed assets	(4,858)	(1,360)
Write-off of investment in inactive subsidiary	—	500
	<u>4,301,390</u>	<u>4,148,389</u>
Increase (decrease) in accounts payable over accounts receivable	6,222,656	(171,507)
Proceeds of bank loan	500,000	—
Proceeds of debenture issue	—	3,500,000
Realization of other assets	79,978	13,279
Proceeds on exercise of share purchase warrants	—	5,000
Proceeds on sale of fixed assets	21,100	4,348
	<u>11,125,124</u>	<u>7,499,509</u>

RESOURCES APPLIED

Purchase of minority interest's shares	—	2,000
Increase in deferred premium acquisition costs	306,179	266,163
Dividends	415,490	355,829
Repayment of bank loans	—	3,735,934
Purchase of fixed assets	815,181	125,184
Deferred debenture costs	—	185,000
Head office under construction	—	1,685,603
	<u>1,536,850</u>	<u>6,355,713</u>

INCREASE IN RESOURCES

RESOURCES — BEGINNING OF YEAR	<u>42,810,519</u>	<u>41,666,723</u>
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RESOURCES — END OF YEAR	<u>52,398,793</u>	<u>42,810,519</u>
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REPRESENTED BY:

Cash	4,464,655	2,461,515
Investments	<u>47,934,138</u>	<u>40,349,004</u>
	<u>52,398,793</u>	<u>42,810,519</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1980

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of the company and its three subsidiary companies, Simcoe & Erie General Insurance Company, The Bay City General Insurance Company and Simcoe Bay Reinsurance Company Limited. The investment in Robt. Bradford of Canada Limited, a corporate joint venture, is accounted for on an equity basis.

(i) The excess of cost of investment in shares of subsidiaries over net book value of assets acquired is being amortized on a straight line basis over 20 years. The amount charged to earnings during the year was \$10,432 (1979 — \$10,432).

(ii) Deferred debenture costs are being amortized on a straight line basis over the fifteen year life of the 10 1/2% debentures.

All assets, liabilities, revenues and expenses in foreign currencies have been translated at the rates prevailing at December 31, 1980.

(A) PRINCIPLES OF CONSOLIDATION

(B) AMORTIZATION

(C) FOREIGN EXCHANGE

2. CONVERTIBLE DEBENTURES

The 6% debentures due December 31, 1981 are secured by a first floating charge on the assets and undertaking of the company and are convertible into common shares at \$1.66 2/3 per share on or before December 31, 1981; 26,820 shares have been set aside to satisfy the remaining conversion privileges. During the year 18,540 shares were issued at \$1.66 2/3 per share on conversion of \$30,900 of debentures.

(A) 6% CONVERTIBLE DEBENTURES

The 10 1/2% convertible debentures due December 15, 1994 are secured by a floating charge on all the company's undertaking, property and assets subject to a prior floating charge securing the 6% convertible debentures as outlined in Note 2(A).

**(B) 10 1/2% CONVERTIBLE
DEBENTURES**

The convertible debentures may not be redeemed prior to December 15, 1982 and thereafter until December 1984 will be redeemable only if the weighted average price at which the common shares of the company were traded on the Toronto Stock Exchange in a specified period prior to giving notice of redemption was not less than 125% of the conversion price. After December 15, 1984 the 10 1/2% convertible debentures will be redeemable at the option of the company. 875,000 shares have been set aside to satisfy these conversion privileges.

There are warrants for the purchase of 24,867 shares outstanding as at December 31, 1980 which may be exchanged for common shares on the same basis as the convertible debentures described in Note 2(A).

3. SHARE WARRANTS

	1980	1979
	\$	\$
Basic	.29	.67
Adjusted basic	.29	.66
Fully diluted	.27	.64

Basic earnings per share are calculated based on the weighted average number of common shares outstanding during the respective years.

4. EARNINGS PER SHARE

Adjusted basic earnings per share are calculated assuming that the 18,540 shares issued during the year on conversion of \$30,900 in debentures occurred January 1, 1980. Earnings applicable to common shares were adjusted by the interest after income tax (\$447) on those debentures converted.

The calculation of fully diluted earnings per share assumes that all of the outstanding 6% debentures, 10 1/2% debentures and share warrants were converted into common shares as of January 1, 1980. Earnings applicable to common shares were adjusted by the interest, after income tax, on the debentures (\$191,065) and imputed interest on the share warrants (\$2,997). The number of common shares outstanding was adjusted to reflect the additional shares that would have resulted on conversion (926,687).

Expenses for the year include depreciation and amortization in the amount of \$223,381 (1979 — \$72,906).

The remuneration of directors and senior officers of the company and its subsidiaries, as defined by the Business Corporations Act (Ontario) amounted to \$640,503 (1979 — \$568,963).

The minimum annual rental cost over the next five years for the lease of office space and equipment under long-term leases is:

	\$
1981	119,800
1982	115,600
1983	115,600
1984	86,900
1985	60,100

During the year Robt. Bradford of Canada Limited, a corporate joint venture partly owned by the company, wrote \$10,245,957 in premiums for one of the company's subsidiary insurance companies. Robt. Bradford of Canada Limited earned \$1,568,946 in commission on those premiums and at December 31, 1980 was indebted to the subsidiary company in the amount of \$1,826,756 representing premiums in the course of collection.

4. EARNINGS PER SHARE

5. STATUTORY INFORMATION

6. LEASE COMMITMENTS

7. RELATED PARTY TRANSACTIONS

	In Canada \$	Out of Canada \$	Eliminations \$	Consolidated \$
Revenue outside of enterprise				
Net premiums earned	20,263,908	11,244,297		31,508,205
Management fees	352,162			352,162
Investment income	<u>3,472,944</u>	<u>1,088,706</u>		<u>4,561,650</u>
Total revenue	<u>24,089,014</u>	<u>12,333,003</u>		<u>36,422,017</u>
Segment operating result	<u>3,368,649</u>	<u>(270,076)</u>	<u>(355,850)</u>	2,742,723
Interest expense				396,400
Minority interest				679
Income taxes				1,341,866
Equity in				
Joint Venture				34,166
Net earnings				<u>1,037,944</u>
Identifiable assets	<u>61,566,801</u>	<u>24,080,126</u>	<u>(12,397,574)</u>	<u>73,249,353</u>

8. GEOGRAPHIC SEGMENTS

Allocation to geographic segment is based on the location of the insured risk.

9. COMPARATIVE FIGURES

Certain of the 1979 comparative figures have been restated to conform with the 1980 method of presentation.

SIX YEAR REVIEW

	1980	1979	1978	1977	1976	1975
Gross Revenue	102,475,021	77,890,121	68,366,631	67,581,351	47,341,111	34,275,929
Net Earnings	1,037,944	2,381,399	2,676,633	1,830,535	1,457,786	601,454
Assets	73,249,353	59,290,064	51,433,861	45,781,228	34,659,079	27,828,874
Earnings per Share	0.27	0.64	0.73	0.503	0.407	0.167

SIMCOE ERIE INVESTORS LIMITED SUBSIDIARIES Simcoe & Erie General Insurance Company
 The Bay City General Insurance Company
 Simcoe Bay Reinsurance Company Limited - Bermuda

MANAGED COMPANIES New Rotterdam Insurance Company
 The Contingency Insurance Company Limited
 Robt. Bradford of Canada Limited



SIMCOE ERIE INVESTORS LIMITED AND ITS SUBSIDIARIES
505 YORK BOULEVARD, HAMILTON, ONTARIO L8R 3K4